

COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE

Massachusetts Trade Self-Insurance Group, Inc.

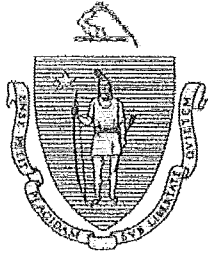
Braintree, Massachusetts

As of December 31, 2012

EMPLOYER'S ID NUMBER: 04-3165999

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
History	2
Dividends to Members	3
Growth of the Group	3
Corporate Records	3
Board of Trustees Minutes	3
Articles of Organization and Bylaws	3
Annual Meeting	4
Conflict of Interest Procedures	4
Disaster Recovery and Business Continuity	4
Management and Control	4
Board of Trustees	4
Officers	5
Management Services Agreements	5
Fidelity Bond and Other Insurance	6
Territory and Plan of Operation	6
Statutory Deposits	6
Reinsurance	7
Accounts and Records	7
Financial Statements	8
Statement of Assets and Liabilities	9
Statement of Income	10
Notes to Financial Statements	11
Acknowledgment	12



COMMONWEALTH OF MASSACHUSETTS
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May 1, 2014

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws ("MGL"), Chapter 152, Section 25I, an examination has been made of the financial condition and affairs of

MASSACHUSETTS TRADE SELF-INSURANCE GROUP, INC.

at its administrative office located at 35 Braintree Hill Office Park, Suite 206, Braintree, Massachusetts 02184. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Massachusetts Trade Self-Insurance Group, Inc., ("Group") was last examined by the Massachusetts Division of Insurance ("Division") as of December 31, 2006. The current examination was conducted by the Division and covers the intervening period from January 1, 2007 through December 31, 2012, and any material transactions and/or events occurring subsequent and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee. The Committee requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Group by obtaining information about the Group, including corporate governance, identifying and assessing inherent risks within the Group, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In addition to a review of the financial condition of the Group, the examination included a review of the Group's business policies and practices, corporate records, reinsurance treaties, fidelity bond and other insurance, business continuity plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Group was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

Feeley & Driscoll P.C., an independent certified public accounting firm, audits the Group annually. The firm expressed unqualified opinions on the Group's financial statements for the calendar years 2007 through 2012. A review and use of the certified public accountants' work papers was made to the extent deemed appropriate and effective.

HISTORY

The Group, Massachusetts Trade Self-Insurance Group, Inc. was organized within the Commonwealth of Massachusetts on August 4, 1992, pursuant to and in accordance with Massachusetts General Law, Chapter 180, to establish a not-for profit association of employers to constitute a workers' compensation self-insurance group. Consistent with Massachusetts General Law, Chapter 152; Section 25E through 25U, the Group was created to make available a self-insured workers' compensation program for a group of small wholesalers and truckers companies operating within the Commonwealth of Massachusetts.

The Group, by a written administrative service agreement, engaged Cove Risk Services, LLC, ("Cove Risk") a workers' compensation administrator, to perform and manage the day-to-day activities of the Group. Cove Risk assumed administration of the Group in October 2011. At the time of the last exam, up to October 2011, First Cardinal LLC administered the Group.

Massachusetts Trade Self-Insurance Group, Inc.

Dividends to Members

The Group's distribution of dividends is based on the Group's incurred loss ratio as a percentage of each Member's earned premium. The declaration of distributions payable to Members is at the discretion of the Group's Board of Directors. In accordance with Massachusetts Self-Insurance Group regulations, distributions of these amounts will not begin until twenty-four months after the end of the related policy year. Then, twenty-five percent of the distributions may be made. Subsequently, thirty-three percent, fifty percent, and one hundred percent of the recalculated distributions can be made in each of the successive years.

GROWTH OF THE GROUP

The growth of the Group was compiled from Annual Statements. The following schedule includes any changes as a result of the examination for the years 2007 through 2012.

Year	Admitted Assets	Surplus	Unpaid Losses & LAE	Gross Premiums Written	Net Income
2007	5,439,713	-0-	3,791,642	4,536,768	-0-
2008	6,001,502	-0-	4,065,457	4,718,277	-0-
2009	5,674,414	-0-	3,739,599	3,522,417	-0-
2010	5,043,449	-0-	3,617,921	2,401,743	-0-
2011	4,696,002	-0-	3,528,054	2,876,290	-0-
2012	\$4,522,551	-0-	\$3,222,677	\$3,230,238	-0-

CORPORATE RECORDS

Board of Trustees Minutes

The minutes of meetings of the Board of Trustees were reviewed for the period under examination. For that period, votes and authorizations were found to be in order and the records indicated that the Group appeared to be conducting its affairs in compliance with its bylaws and Laws of the Commonwealth of Massachusetts.

Articles of Organization and Bylaws

The articles of organization and bylaws of the Group as filed with and approved by the Commonwealth's Secretary of State's office were read and reviewed. As stated, the purpose of the organization is to make available a self-insured workers' compensation program for small wholesalers and truckers in the Commonwealth.

Massachusetts Trade Self-Insurance Group, Inc.

Annual Meeting

As outlined with the amended and restated bylaws, the annual meeting of the Members is held on a date fixed by the Board of Trustees each year. The annual meeting was held at the principal office of the Group or at such other place within the United States as the Board of Trustees determined.

The Member annual meeting quorum requirement is one-third of Members when there are more than twenty members (there were 101 members at December 31, 2012). The annual meetings had a quorum from 2007 to 2012 by proxy and were held in September of each year.

Conflict of Interest Procedures

The Group has not adopted a conflict of interest policy that would include an established procedure for the disclosure to the Board of Trustees of any material interest or affiliation on the part of any officer or Trustee that is likely to conflict with his/her official duties.

The conflict of interest policy should also include a provision that requires each officer and Trustee to sign an annual Conflict of Interest Declaration. This provision has not been implemented and therefore there is no way to know if any conflicts exist.

Disaster Recovery and Business Continuity

Cove Risk is working to update their business continuity plan. They have been working with an IT consultant looking at options for back-ups on their AS-400. The AS-400 is the IBM server that runs the PDS system (which is premium and claims). Cove Risk is in the process of pricing an option to lease a second AS-400 for their corporate office in Latham, New York. This second server would replicate the work done in the Braintree, Massachusetts office.

Cove Risk is also researching emergency office space in the greater Boston area.

MANAGEMENT AND CONTROL

Board of Trustees

In accordance with the amended and restated bylaws, the Board of Trustees shall, at any time be no less than three to no more than eleven individuals. All Trustees shall be employees, officers, directors or trustees of Members of the Group and shall be residents of the Commonwealth of Massachusetts or officers of corporations authorized to do business in the Commonwealth of Massachusetts. The members, at their annual meeting shall vote to elect the Board of Trustees. The Trustees shall divide themselves into three classes of approximately equal size, the term of one class expiring each year. At each annual meeting of the Members following the division of the Trustees into three classes, the Members shall elect for a term of three years the appropriate number of successors to the class whose term is then expiring.

The bylaws state that each Trustee shall be a resident of the Commonwealth of Massachusetts or an officer of a corporation authorized to do business in the Commonwealth of Massachusetts. This follows the requirements set out within MGL Chapter 152, Section 25J (1) and 211 CMR 67.07 (1).

Massachusetts Trade Self-Insurance Group, Inc.

We note that the Board currently has two members therefore does not meet the minimum requirement of three.

The Trustees serving on the Board as of December 31, 2012 are as follows:

<u>Name of Trustee</u>	<u>Affiliation</u>
Mark Assetta	President, M & G Transportation
David Bliss	President, Bliss Brothers Dairy, Inc.

Officers

Pursuant to the bylaws, the officers of the Group shall be a President, Treasurer, and Clerk. The Group may also have such agents, if any, as the Trustees may appoint. An officer may but need not be a Trustee. The clerk shall be a resident of Massachusetts. A person may hold more than one office at the same time. If required by the Trustees, any officer shall give the Group a bond for the faithful performance of his duties in such amount and with such surety or sureties as shall be satisfactory to the Board of Trustees. The President shall be the Chief Executive Officer of the Group and subject to the control of the Trustees shall have general charge and supervision of the affairs of the group. The Treasurer shall be the Chief Financial Officer and Chief Accounting Officer of the Group. He shall be in charge of its financial affairs, funds, securities and valuable papers and shall keep full and accurate records thereof. The Clerk shall record and maintain records of all proceedings of the members and trustees.

The elected officers and their respective titles at December 31, 2012 are as follows:

David Bliss	President
Mark Assetta	Treasurer
David Bliss	Secretary

Management Services Agreements

The Group has entered into an Administration Service Contract with Cove Risk Services Inc. to serve as the Group's third party administrator ("TPA").

The TPA shall carry out the policies established by the Board of Trustees and provide daily management of the Group. The TPA will receive an annual fee for administrative functions.

The Group has an investment advisor, Opus Investment Management, Inc. ("Opus") which supervises and directs the investment portfolio of the Group. Opus performs its investment management obligations under guidelines established by the Group's Investment Policy Guidelines, which references guidelines included in MGL Chapter 175, Section 63. Opus supplies

Massachusetts Trade Self-Insurance Group, Inc.

custodian services through an agreement with Bank of New York-Mellon who is the Qualified Custodian. Opus also provides investment accounting services and Annual Statement Schedule D reporting information.

FIDELITY BOND AND OTHER INSURANCE

In accordance with MGL Chapter 152, Section 25G and 211 CMR 67:06, the Group's TPA shall maintain fidelity bond coverage in an amount not less than the TPA's total annual compensation or \$1,000,000, whichever is less. The TPA had in place fidelity bond coverage in the amount of \$500,000. Due to premium growth, the compensation of the TPA has exceeded \$1,000,000, and the fidelity bond coverage was increased to comply with the regulation in 2012.

TERRITORY AND PLAN OF OPERATION

The Group is a self-insurance group permitted to transact business only in the Commonwealth of Massachusetts.

STATUTORY DEPOSITS

The Company's statutory deposits as of December 31, 2012 are as follows:

Jurisdiction	Description of Deposit	Par Value	Statement Value	Market Value
Massachusetts	(1) Surety Bond effective date 8/1/12 to 7/31/13		\$325,000	
Massachusetts	Fannie Mae Discount Notes .120% Due 05/08/13	36,375	36,375	36,375
		<u>\$36,375</u>	<u>\$361,375</u>	<u>\$36,375</u>

The Security Deposits do meet 211 CMR 67.08 (2) (d) (3) that states "Any securities or certificates of deposit shall have a remaining maturity of one year or less from their time of purchase". The amount that is pledged to the Division as a security deposit is \$361,375. The Group complies with this regulation, as the amount is with short-term investments and a surety bond. It is noted that the amount complies with 211 CMR 67.08 (02) (d) (1), as the amount is more than ten percent of the Group's current annual standard premium.

Note (1): Surety Bond #41245556 was issued on August 13, 2012 with Platte River Insurance Company. In 2012, the Division provided the Group with approval allowing them to obtain this surety bond to meet their liquidity deficit.

REINSURANCE

The Group maintains specific and aggregate excess workers compensation and employers liability coverage with insurance carriers authorized to transact reinsurance in the Commonwealth of Massachusetts. Under the annual policy, the Group retains the first \$500,000 of each occurrence subject to a limit of liability to the reinsurer of \$5,000,000 for each occurrence. The reinsurer is rated (A) by A.M. Best & Company rather than an (A+) rating as required by 211 CMR 67.21 (5) (b). This reinsurer is only rated by this one entity and it has a minimum acceptable rating. However, this rating was not in the top two categories. In years 2012 to 2014, the Division provided the Group with approval allowing them to use this company.

In years 2007 to 2012, the Division provided the Group with approval to permit the purchase of aggregate reinsurance with an attachment point up to 150% of the Group's standard premium rather than the 105% as required by the regulation.

The Group remains primarily liable for its obligations under its reinsurance contracts. In the event the insurer would be unable to pay its portion of any losses incurred, the Group would be liable to pay for such obligations.

ACCOUNTS AND RECORDS

The trial balances, general ledgers, and audited financial statements provided by the Group were reviewed for the examination period ending December 31, 2012.

General ledger account balances were reconciled and traced to amounts reported in the Annual Statement for the year ended December 31, 2012. All balance sheet accounts with a category class of statutory ledger, non-ledger and non-admitted were summarized and traced to the appropriate asset exhibits and liability lines within the Annual Statement. Selected income and expense allocations and postings were sampled and verified for reasonableness.

The financial accounting records provided are processed and maintained by the TPA, Cove Risk Services, LLC. Investment accounting is supported by Opus Investment Management. The systems support reporting and accounting requirements as set by the NAIC for the Group's business operations.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance and by the NAIC as of December 31, 2012:

Statement of Assets and Liabilities as of December 31, 2012

Statement of Income for the Year Ended December 31, 2012

Massachusetts Trade Self-Insurance Group, Inc.

Statement of Assets and Liabilities
as of December 31, 2012

	Per Company	Examination Changes	Per Examination	Notes
Assets				
Bonds	\$3,485,089	\$0	\$3,485,089	
Cash on hand and on deposit	511,196		511,196	
Cash equivalents	1,156		1,156	
Short-term investments	399,942		399,942	
Subtotals, cash and invested assets	4,397,383		4,397,383	
Investment income due and accrued	37,042		37,042	
Premiums and considerations:				
Uncollected premiums in the course of collection	4,804		4,804	(1)
Reinsurance:				
Amounts recoverable from reinsurers	71,710		71,710	
Other amounts receivable under reinsurance contracts	0	11,612	11,612	(2)
Aggregate write-ins for other than invested assets	11,612	(11,612)	0	(2)
Total Assets	<u>\$4,522,551</u>	<u>\$0</u>	<u>\$4,522,551</u>	
Liabilities				
Losses	\$3,023,127		\$3,023,127	(3)
Loss adjustment expense	199,550		199,550	(3)
Other expenses	67,847		67,847	
Taxes, licenses and fees	26,718		26,718	
Advance premium	458,640		458,640	
Policyholders - unpaid dividends	746,669		746,669	
Total Liabilities	<u>\$4,522,551</u>	<u>\$0</u>	<u>\$4,522,551</u>	

Massachusetts Trade Self-Insurance Group, Inc.

Statement of Income
For the Year Ended December 31, 2012

	Per Company	Examination Changes	Per Examination
Underwriting Income			
Premiums earned	\$2,946,972	\$0	\$2,946,972
Deductions			
Losses incurred	1,854,877		1,854,877
Loss adjustment expenses incurred	404,099		404,099
Other underwriting expenses incurred	698,026		698,026
Total underwriting deductions	<u>2,957,002</u>	<u>0</u>	<u>2,957,002</u>
Net underwriting gain (loss)	<u>(10,030)</u>	<u>0</u>	<u>(10,030)</u>
Investment Income			
Net investment income earned	135,631	0	135,631
Net realized capital gains or (losses)	19,910		19,910
Net investment gain or (loss)	<u>155,541</u>	<u>0</u>	<u>155,541</u>
Other Income	<u>27,116</u>	<u>0</u>	<u>27,116</u>
Net income before dividends to policyholders	172,627		172,627
Dividends to policyholders	172,627		172,627
Net income	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

NOTES TO FINANCIAL STATEMENTS

Note (1) Uncollected Premiums

\$4,804

The net amount of \$4,804 for uncollected premiums of \$13,845 minus the over 90 days amount of \$9,041 was listed on page 2, line 15.1, (columns 1 and 3) of the 2012 Annual Statement. Per the NAIC annual statement instructions, the \$13,845 should be listed in column 1 and the \$9,041 should have been listed in column 2 as non-admitted.

Note (2) Aggregate write-ins for other than invested assets

\$11,612

The total amount of \$11,612 for Reinsurance receivable on page 2, line 25.02 of the 2012 Annual Statement should be listed with Other amounts receivable under reinsurance contracts on page 2, line 16.3.

Note (3) Loss and Loss Adjustment Expenses

\$3,222,677

The Group establishes reserves based upon the case basis estimates of its claims and an analysis of loss and loss adjustment expenses reserves performed on an annual basis by an independent actuarial consulting firm, Milliman, Inc. The Group's certified public accountants in turn rely upon this review. The Massachusetts Division of Insurance has received all available documentation of the Group's loss and loss adjustment expenses reserves and has relied upon the opinion of this independent actuarial firm as appropriate.

The reserve for unpaid losses and loss adjustment expenses includes an estimated provision for incurred but not reported losses ("IBNR") as well as reported losses. The IBNR provision totaled approximately \$1,984,657 on an undiscounted basis as of December 31, 2012.

The net loss and loss adjustment expenses reserves reported have been discounted using a discount factor not in excess of the discount factor that would result from use of the interest rate and loss payment prescribed by and under section 846 of the Internal Revenue Code of 1986, as amended. Such discounting of loss and loss adjustment expenses is permitted by Massachusetts Regulation, 211 CMR 67.08 (2).

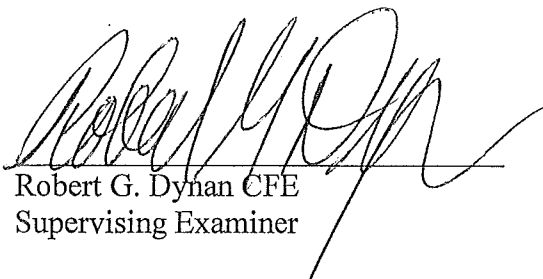
The unpaid losses and loss adjustment expenses were discounted approximately \$533,270 for a net carried reserve of \$3,222,677 at December 31, 2012.

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Group and its TPA, Cove Risk Services, LLC during the examination.



Brian A. Knowlton
Examiner-In-Charge



Robert G. Dynan CFE
Supervising Examiner